

Income Statement – Single-step

Income Statement

The income statement is the first financial statement prepared. So, why do we prepare an income statement? An income statement is prepared to accurately report revenues and expenses for a business over a period in time. This means that the income statement reports all revenue and expense items from the beginning to end of a time period, usually a year.

An income statement is the financial statement used to calculate net income. Net income, in the simplest format, is revenue – expenses.

There are two common income statement formats. Single step and multiple step. Regardless of which method the company uses – the net income will be the same.

We will talk about the single step income statement in this video. Another video will discuss the multiple step income statement.

The single step income statement groups all revenue accounts together and all expense accounts together. There is only one subtotal for each category.

Here's an example of a single step income statement. Notice how all the revenues are grouped together and all expenses are group together.

When preparing the single step income statement follow these steps. Step 1 – prepare the heading. Step 2 – list all revenues and total. Step 3 – list all expenses and total and Step 4 – calculate net income. Let's look at the steps in detail.

Step 1 – Record the statements heading. Notice that the heading includes the name of the company, the name of the statement – income statement, and the time period, for the year ending December 31, 2008. Remember that an income statement always represents a period of time which is why the income statement includes for the year or for the month.

In step 2, list all of the revenue items and total. In addition to net sales, revenue items also include interest revenue and any gains on sale of assets.

Step 3 – list all expense items and total. Expenses include cost of goods sold, selling, general and administrative, and losses from disposal of assets.

In the last step, calculate Net Income. Remember that net income is Revenue – expenses.

So remember these four steps when preparing a single step income statement. Step 1 – prepare the heading. Step 2 – list all revenues and total. Step 3 – list all expenses and total and Step 4 – calculate net income